

The secret meaning

of the

Japanese Candlesticks

PART 1

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Dear Trader,

It has been a long time since I've started investigating the most interesting, exciting and challenging subject in Forex technical trading - Japanese Candlesticks.

I've studied every possible angle about these candlesticks, but no one has told me the real secrets on the market.

One of my trading mentors, the person who've changed the way I think and behave has told me: "***when you understand the secrets of Japanese Candlesticks, you will understand everything on the market***".

I've asked him to elaborate about these secrets, but he refused. He told me I should first explore it myself.

I've decided to take this one step forward and started to investigate this thoroughly. After years of observation, trading, experimenting, losses and profits I've realized it.

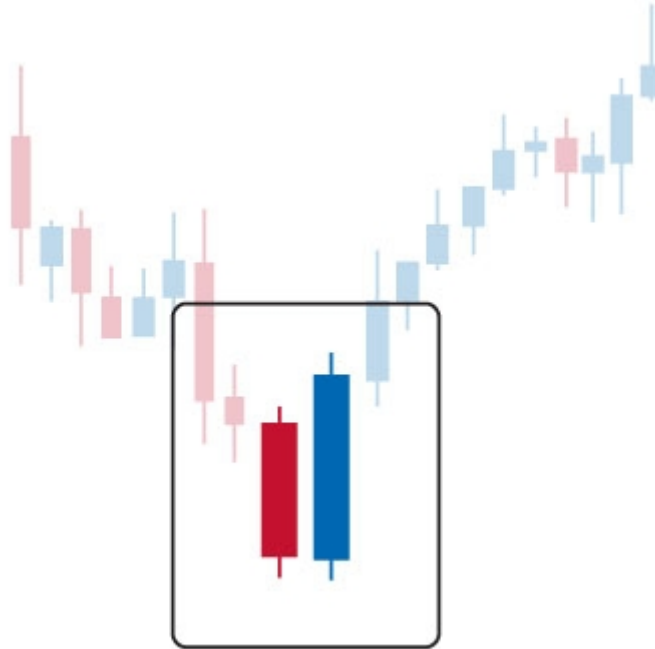
After I've realized it I decided to write down all my insights to make sure I will never dare to forget this. A written word will never be forgotten.

Today I allow myself to take it even further and, unlike my mentor, I've decided to share with you the hidden secret of Japanese Candlesticks.

I will explain about two patterns which you probably already know, and will then elaborate on their secret meaning on a chart.

Engulfing

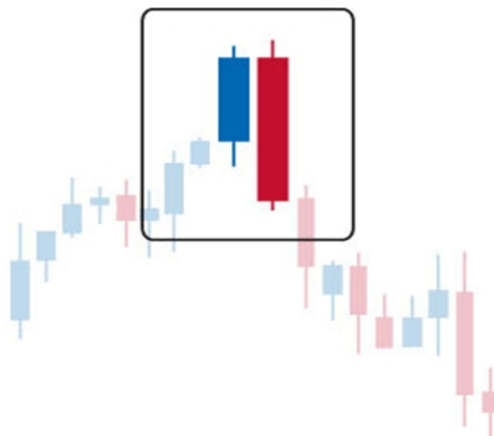
The first pattern I would like you to know is called: Engulfing. It looks like this:



Its meaning is simple: The body of the (usually) blue or green candlestick “swallows” the body of the previous candlestick.

It means that the body of the bullish (rising) candle is bigger than the body of the bearish candle that preceded it. It was the last candlestick on the downtrend. This is a **bullish** engulfing.

There is also **bearish** engulfing: this is an engulfing pattern that shows itself at the end of an uptrend.



The red candlestick, that reflects the bulls, “swallows” the entire candlestick which preceded it.

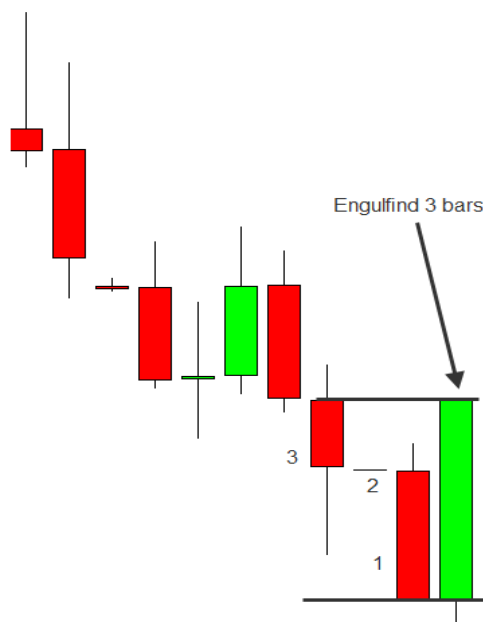
Please note: in this pattern, we are interested only in the candlesticks’ bodies. We do not care about the tails/shadows.

After we’ve seen the famous engulfing pattern, let’s try to understand why it is so special.

This pattern has a very unusual sub-pattern that sometimes appears. I call it the 3 candlesticks engulfing.

The 3 candlesticks engulfing swallows not only one candlestick that preceded it. It swallows 3 bodies of the 3 candlesticks that precede it.

Here is an example:



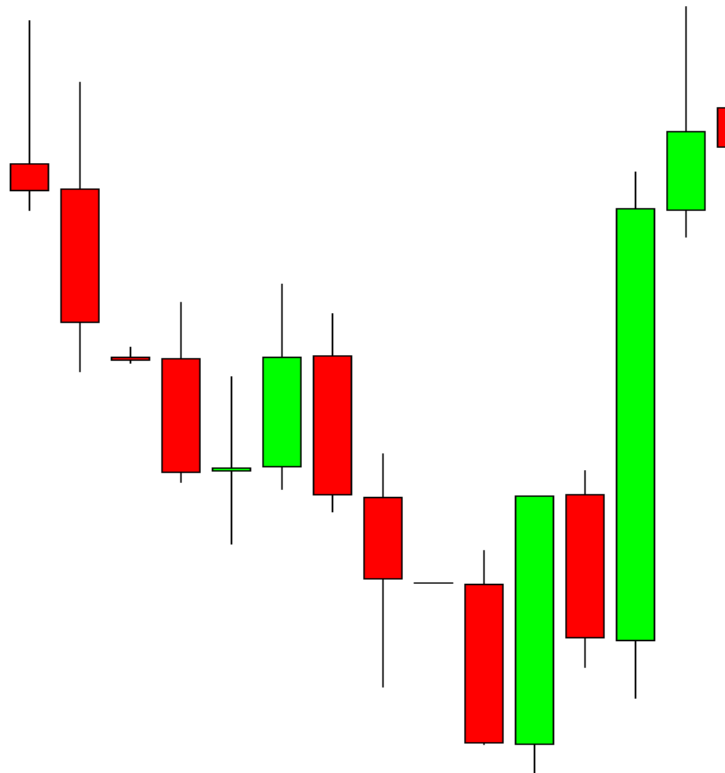
As you can see, the body of the green candlestick, the bullish candlestick, swallows the previous 3 candlesticks.

Note: I don’t care about the shadows in engulfing pattern.

This pattern is rare but extremely unique.

Usually after an engulfing pattern we will see decreases in prices and only afterward the price will rise. It is to say that mostly, we will witness a small correction that appears before a very powerful move, which the engulfing pattern has hinted on. After the correction the price will move in the same direction of the engulfing pattern.

Look at what happened right after the above engulfing:



After the engulfing we've witnessed a fall and right after it - market has moved in the direction of the engulfing.

Why does it happen?

After a very strong downtrend a phase comes where traders take their profits. When this profit-taking phase occurs, the market moves in a direction opposite to the previous move.

In our example, an up move follows profit taking after a downtrend. This created the powerful engulfing. The real "professional" buyers are waiting for the small correction that will follow this engulfing so as to attack the bargain price.

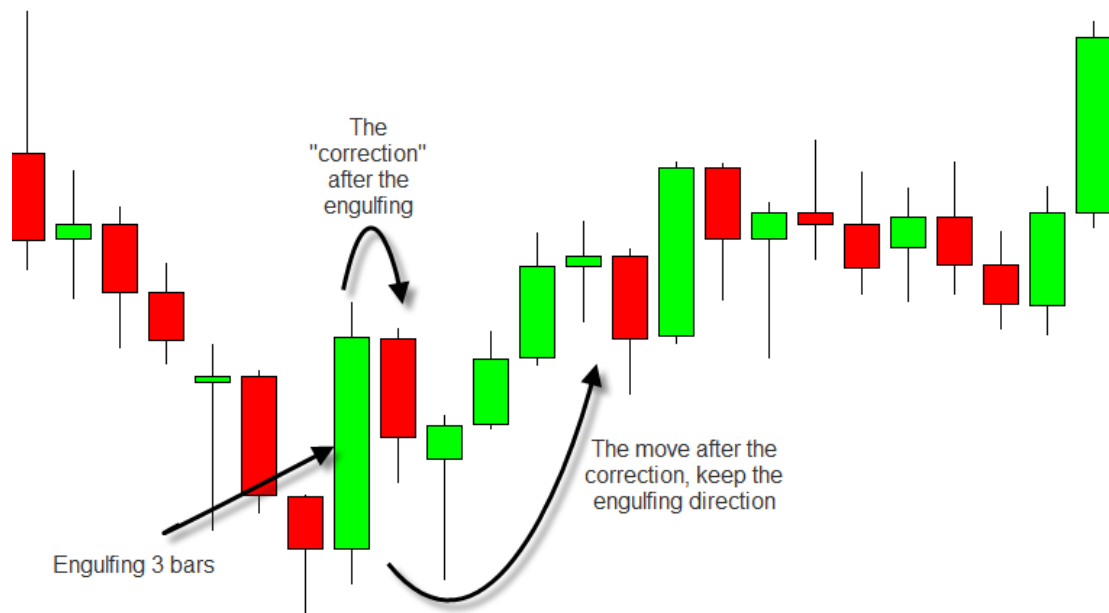
How can this help us?

If you've identified a 3 candlesticks engulfing, you can trade against the direction of the engulfing candlestick with a risk of a few pips and take profit of few pips (depending on the engulfing candlestick size). After this, you can and should join the market in the direction of the engulfing.

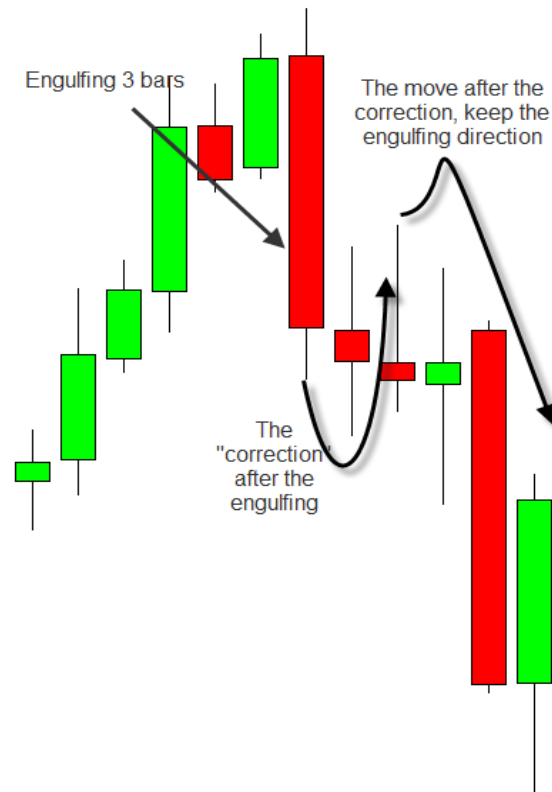
This way you are squeezing the maximum pips available from this pattern.

Please note: There are engulfings of less than 3 candlesticks and there are engulfing of more than 3 candlesticks. They are less reliable. Please take this into account.

3 candlesticks engulfing is rare but extremely reliable.



This pattern is also very reliable when it appears after an uptrend:



Now, after we've seen the first pattern, the 3 candlesticks engulfing, let's recognize the second pattern, which also hints about a trend's end. This pattern is called Marubozu.

(continued on next page)

Marubozu

It means a candlestick without shadows. There are a few classes of Marubozu candlestick:

- A complete Marubozu, with no shadows at all.
- A closing Marubozu, with no shadow above or below the close of the candlestick.
- An opening Marubozu, with no shadow above or below the open of the candlestick.

Here you can see some examples:

An opening Marubozu:



This bearish candlestick has opened from the upper side of the candlestick and kept falling. There is no shadow above the opening price.

A closing Marubozu:



This candlestick has closed with no shadow below the closing price.

A complete Marubozu:



This candlestick has started and finished with a move in only one direction. There are no shadows above or below open and close prices.

After we understood the meaning and general form of a Marubozu, let's see how and when we should use it.

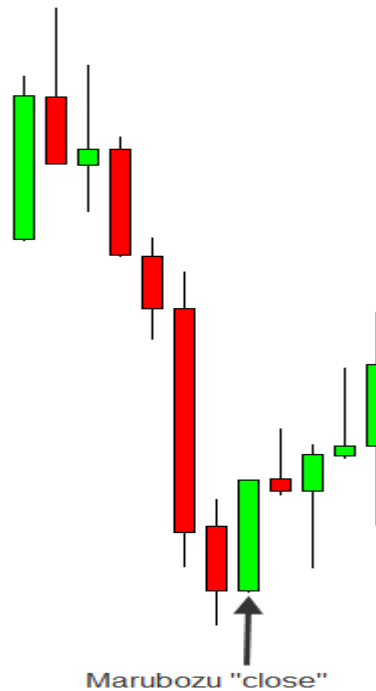
When Marubozu appears at the end of a trend, uptrend or downtrend, in 95% of the cases it means that the trend has finished and this is an ideal time to exercise profits.

Let's see examples of this pattern:



You can see that after a closing Marubozu the market changed its direction. It moved from an uptrend to a downtrend.

Here is another example:



Here we can also see a clear Marubozu. Market has changed direction after this Marubozu.

Please note: after Marubozu at the end of a trend, a trading range might follow, in other words, there is a desperate attempt to continue the trend.

Don't get confused guys and gals, Marubozu at the end of a trend means you should close your trades and collect your profits.

Why should we close open trades after a Marubozu?

A candlestick with no shadows is a very powerful candlestick.

If this is a green candlestick, it means that the power of the buyers has gotten very strong.

If this is a red candlestick, it means that the sellers are in charge.

A candlestick with no shadows means that market has just performed a “clearance sale”. Imagine a fashion store announcing on a sale. You will find it packed with people. Then, there are barely clothes available for sale. Then there is a decrease in demand and price falls.

This is exactly what happens after a Marubozu.

People are streaming to the store, but the supply is over. This is time to close your positions guys.

Here are more examples:



A Marubozu appeared and this is the perfect time to close your positions and collect profits.



After the Marubozu there is a desperate attempt to find more supply, but it does not exist any longer. Then the market has entered a trading range.

That's it for now my friend. This is the first part of "the secret meaning of Japanese Candlesticks". I am sure you will use this to your advantage and improve your trading skills.

Wishing you good luck with your trading.

To your success,

Vladimir Ribakov

